USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 7/14/2005

GAIN Report Number: CH5053

China, Peoples Republic of

Frozen Potato Products

Annual

2005

Approved by:
Maurice House
U.S. Embassy Beijing, Office of Agricultural Affairs

Prepared by:
Ralph Gifford & Zhang Lei

Report Highlights:
China's Frozen French Fry (FFF) consumption is forecast to increase 20 percent annually in next few years driven by Quick Service Restaurants (QSRs) rapid growth. China's domestic FFF production is forecast to increase to 50,000 tons in MY05/06 from 35,000 tons in MY04/05 because two big production lines are expected to put into production in late 2005. FFF imports are forecast to increase 20 percent to 84,500 tons in MY05/06 driven by strong demand. The United States is the largest FFF exporter to China, however, its share is shrinking because of Canada's rapid expansion.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Beijing [CH1]
[CH]

Table of Contents

Executive Summary

China is one of the highest growth markets for frozen potato sales, and the fast growth is forecast to continue in the next two to three years as its HRI sector continue its rapid growth. Western-style fast food outlets continue to rapidly expand. Domestic production of frozen potatoes is increasing, but not as rapidly as demand.

Production

China's fresh potato production in MY05/06 is forecast to reach 73 million tons; planted area totals about 4.8 million hectares. Potatoes are considered the fourth staple crop in China, following wheat, rice and corn. Inner Mongolia, Gansu, Yunnan and Guizhou are the top potato producers, accounting for more than 45 percent of China's total potato production.

Although Chinese potato researchers have announced a goal of increasing total planted area to six million hectares, doubling yields by 2010, Post forecasts planted area will increase in major producing provinces, because of Chinese government's agricultural policies. In areas dominated by grain production, the government has encouraged farmers to increase production area. Increased potato planting is most likely to occur in the current production areas of Inner Mongolia, Gansu and Guizhou, where potato production has higher income than other crops. Post expects yield will increase significantly because many local potato research organizations have developed and introduced high yield varieties, and promoted providing farmers with virus-free seed potatoes. The industry goal of doubling yields in five years, however, is not a realistic target.

China's domestic Frozen French Fry (FFF) production in MY04/05 is estimated at 35,000 tons, Simplot takes the largest share. There are other three small FFF production lines in Gansu, Shanxi and Shandong, with annual capacity of 1,000-3,000 tons. Post expects that domestic production will increase sharply when two new big plants go into production. The first is in Harbin, Heilongjiang Province, with production capacity of 7.5 tons/hour (65,700 tons/year), which is expected to start production in October 2005. Its target output for 2006 is forecast at 15,000-20,000 tons. The second one is locally invested in Taiyuan, Shanxi Province, with production capacity of 30,000 tons/year, which is expected to go into production by the end of 2005. The project is listed as one of China's "Major Agricultural Products Further-Processing Projects 2004" by the National Development and Reform Commission (NDRC). The project also includes 100,000 tons of fresh potato storage. In addition, Gansu Gold Land is planning to expand its capacity from current 3,000 tons to 25,000 tons in 2007.

Post believes there are three constraints on domestic FFF production.
1) Raw material: Potatoes for FFF production have high quality requirements, including starch/sugar content, size, and shape. Potatoes for FFF production usually need better natural conditions and irrigation, and therefore must compete with grains or other cash crops for the best land. At present, very few local potatoes are suitable for FFF processing, and China does not allow fresh potato imports. Large international FFF producers have their own potato plantation bases to ensure quality potato supply. Furthermore, local yields are far lower than U.S. yields because of disease/pest, and low farm management skills, such as proper fertilizer and pesticides use.
2) Storage: In northern China, potatoes are an annual crop. To extend the processing season, FFF producers need to build their own fresh potato storage. A processor that post visited in Gansu only processes for three to five months in potato harvest season because of storage limitations.
3) Distribution: FFF distribution requires refrigerated railcars or trucks. Given rural China's weak infrastructure, delivery costs are high. As the more affluent cities are ports, imported products have a freight advantage.

Consumption

China's domestic FFF consumption is estimated at 100,000 tons: 70,000 tons are imported and 30,000 tons are domestically produced. The Quick-Service Restaurant (QSR) sector, especially western-style fast food, is the largest FFF consumer in China, accounting for more than 70 percent of total consumption. Consumption is forecast to increase 20 percent annually in the next five years, driven by the QSR sector's rapid growth. China's food service sector has enjoyed double-digit growth for 14 years, and the trend is expected to continue as income rises. China's food service sector revenue totaled RMB748.6 billion ($US=RMB8.265) in 2004, increasing 22 percent from 2003. Industry forecasts it will reach RMB880 billion in 2005 and RMB1000 billion in 2006. Fast food, especially western-style fast food, is one of the fastest increasing sectors. Kentucky Fried Chicken (KFC) and McDonalds are the leaders and the largest contributors to China's rapid fast food sector development. By December 2004, KFC had opened 1,200 restaurants in China, and expects 20 percent annual growth. McDonald's has about 600 restaurants in China, and has moved its China headquarter from Hong Kong to Shanghai at the beginning of 2005 to better develop its business in China. Recently, McDonald's announced plans to open the franchise business in China to expand its outlets rapidly. Please refer to GAIN Report CH5407 for more information on China's HRI sector, which is available at http://www.fas.usda.gov/gainfiles/200506/146130105.pdf

In addition to QSR's, FFF consumption in hotels and bars is growing very fast. FFF retail sales in supermarket, especially in big cities, are small but growing steadily.

Food safety issues have affected FFF consumption. In China, two issues related to food safety decreased French fries consumption this year.

1) Sudan Red: In March 2005, newspapers reported finding a toxic dyestuff, Sudan Red, in prepackaged chili sauce purchased by KFC. The illegal dyestuff was traced to a supplier in India, but KFC sales fell, which also decreased FFF consumption. One source said FFF deliveries to KFC decreased 50 percent in March and April.
2) FAO/WHO's report on acrylamide: In March 2005, Chinese media have cited FAO/WHO's reports that starch-based foods, such as potato chips and French fries when cooked at high temperature can contain acrylamide, a carcinogen. On April 13, China's Ministry of Heath (MOH) also suggested that Chinese consumers change diet habit and avoid eating excessive fried food. MOH also listed high acrylamide content foods: fried potato products rank the first, followed by fried cereal food, baked cereal food, instant coffee, barley tea and corn tea. Such negative reports could decrease French fries consumption. One producer claimed that their sales decreased 70 percent immediately after the reports were published.

   Per capita FFF consumption is still extremely low in China. Thanks to rising income and increased availability, demand should continue to increase rapidly despite short-term crises.

Trade

China's FFF imports in 2005 are forecast to increase 20 percent to 83,000 tons. China imported 69,548 tons of frozen potatoes (H.S. Code: 20041000) in 2004. China depends heavily on FFF imports because of its limited local production. Imports account for about 70 percent of total frozen potato product consumption. The United States, Canada, and New Zealand are the largest suppliers.

Although the United States dominates China's imported FFF market, accounting for about 80 percent of China's total imported frozen potatoes in 2004, competition continues to intensify from both local producers and producers in Canada, Benelux and New Zealand with low-end, low-priced product. Canada is the largest competitor due to their aggressive sales approaches and lower transportation rates. In the first four months of 2005, U.S. share of China's FFF imports decreased to 61 percent (13,992 tons). At the same time, Canada's share increased to 26 percent (6,024 tons), while during the same period of 2004, Canada's share was only five percent. Industry sources say that a Canadian company successfully bid to be an exclusive FFF supplier to KFC restaurants in Northeast China in 2005.

China's FFF exports are forecast to increase 40 percent due to the large demand from Japan and China's increasing production capability. If new plants can obtain sufficient quality and quantity of raw materials to meet their full design output, industry sources say some companies eventually hope to supply other Asian countries, such as Japan and South Korea, from Chinese plants. China's FFF exports in 2004 totaled 8196 tons, of which 7982 tons went to Japan.

China does not allow fresh potato imports to prevent disease/pest introduction, and protect domestic production. China approved the import of seed potatoes from Alaska in 2003. However, shipments have been suspended.

H.S. Code	Products	Import duty		Import VAT	
		2004	2005	2004	2005
07101000	Potatoes, frozen	13%	13%	13%	13%
20041000	Potatoes, preserved o/t by vinegar or acetic acid, frozen	13%	13%	17%	17%

Policy

China notified its revised DRAFT National Standard of Labeling for Pre-Packaged Food (GB7718). Food labels must be in Chinese and contain information on additives, but stickering is allowed. The manufacturing date and best before date, however, must be indicated on the original packaging. News reports indicate a final version has been approved, but products will receive a grace period to October 1, 2005. Please refer to GAIN Report CH4026 for more information on China's labeling law, which is available at

http://www.fas.usda.gov/gainfiles/200408/146107022.pdf

Marketing

Because of increasing competition, active and accurate marketing is important for U.S. FFF success. In addition to the QSR sector, more distribution channels/consumers should be developed. Chinese food market is much bigger than western food, however, Chinese food consumes much less FFF than western food, therefore, expanding the opportunities for frozen potatoes to be used as a Chinese food ingredient has great potential. U.S. Potato Board (USPB) actively promotes U.S. FFF. For example, train/educate Chinese food chef to use U.S. frozen potatoes in their menu. U.S. exporters are encouraged to contact USPB's Shanghai office for detailed marketing information at telephone: +(86 21) 6279-8668; fax: +(86 21) 6279-8669; email: uspb@prcon.com

Besides big cities like Beijing, Shanghai and Guangzhou, some secondary cities like Chengdu, Hangzhou, Qingdao, Dalian, Wuhan and Chongqing should also be listed on the target locations because of their rapidly consuming ability increase. Emerging means opportunity.

Once the consumers are aware of and develop a preference for U.S. French fries, competitors need to spend more time and money to get into the market. Please refer to GAIN Report CH5803 for detailed information on Chengdu, an emerging city in China, which is available at:

http://www.fas.usda.gov/gainfiles/200503/146118949.pdf

The U.S. potato industry should take actions when food safety crises occur to stabilize the market. Cooperation with Chinese science organizations will be helpful.

Statistics Tables

Beginning Stocks of fresh potatoes in PS&D Table is zero, not consistent with previous year because Post uses September replacing January as Market Year Begin.

Table 1. Fresh Potatoes PS&D Table

Country	**China, Peoples Republic of**					
Commodity	**Fresh Potatoes**				(HA)(1000 MT)	
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		09/2003		09/2004		09/2005
Area Planted	0	4522400	0	4658100	0	4844000
Area Harvested	0	4522400	0	4658100	0	4844000
Beginning Stocks	0	0	0	0	0	0
Production, Commercial	0	66800	0	69500	0	72975
Imports	0	0	0	0	0	0
TOTAL SUPPLY	0	66800	0	69500	0	72975
Exports, Fresh	0	175	0	185	0	205
Processing	0	16650	0	17330	0	18200
Domestic Fresh Market	0	43310	0	45055	0	47300
Feed Waste	0	6665	0	6930	0	7270
TOTAL Dom. Consumption	0	66625	0	69315	0	72770
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	0	66800	0	69500	0	72975

Table 2. Frozen Potato Products PS&D Table

Country	**China, Peoples Republic of**					
Commodity	**Potato Products, Frozen**				(MT)(MT, Net Weight)	
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		09/2003		09/2004		09/2005
Deliv. To Processors	0	90000	0	105000	0	150000
Beginning Stocks	0	0	0	0	0	0
Production	0	30000	0	35000	0	50000
Imports	0	58419	0	70600	0	84500
TOTAL SUPPLY	0	88419	0	105600	0	134500
Exports	0	7982	0	8980	0	12500
Domestic Consumption	0	80437	0	96620	0	122000
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	0	88419	0	105600	0	134500

Table 3. Frozen Potato Products Imports (Volume)

(Metric Tons)					
H.S. 200410					
Country	Apr-Jun 2004	Jul-Sep 2004	Oct-Dec 2004	Jan-Mar 2005	Apr-May 2005
United States	14,894	18,235	11,104	11,203	4,658
Canada	1,327	2,401	2,342	4,811	2,009
New Zealand	2,330	777	1,149	1,027	1,092
Belgium	310	286	396	780	267
Australia	0	0	61	135	41
Egypt	0	168	94	120	191
Germany	0	0	22	40	22
Netherlands	0	0	108	22	0
Malaysia	27	0	8	0	0
Others	0	0	1	0	0
Total	18,888	21,866	15,284	18,139	8,280